

✈ U.S. Airlines

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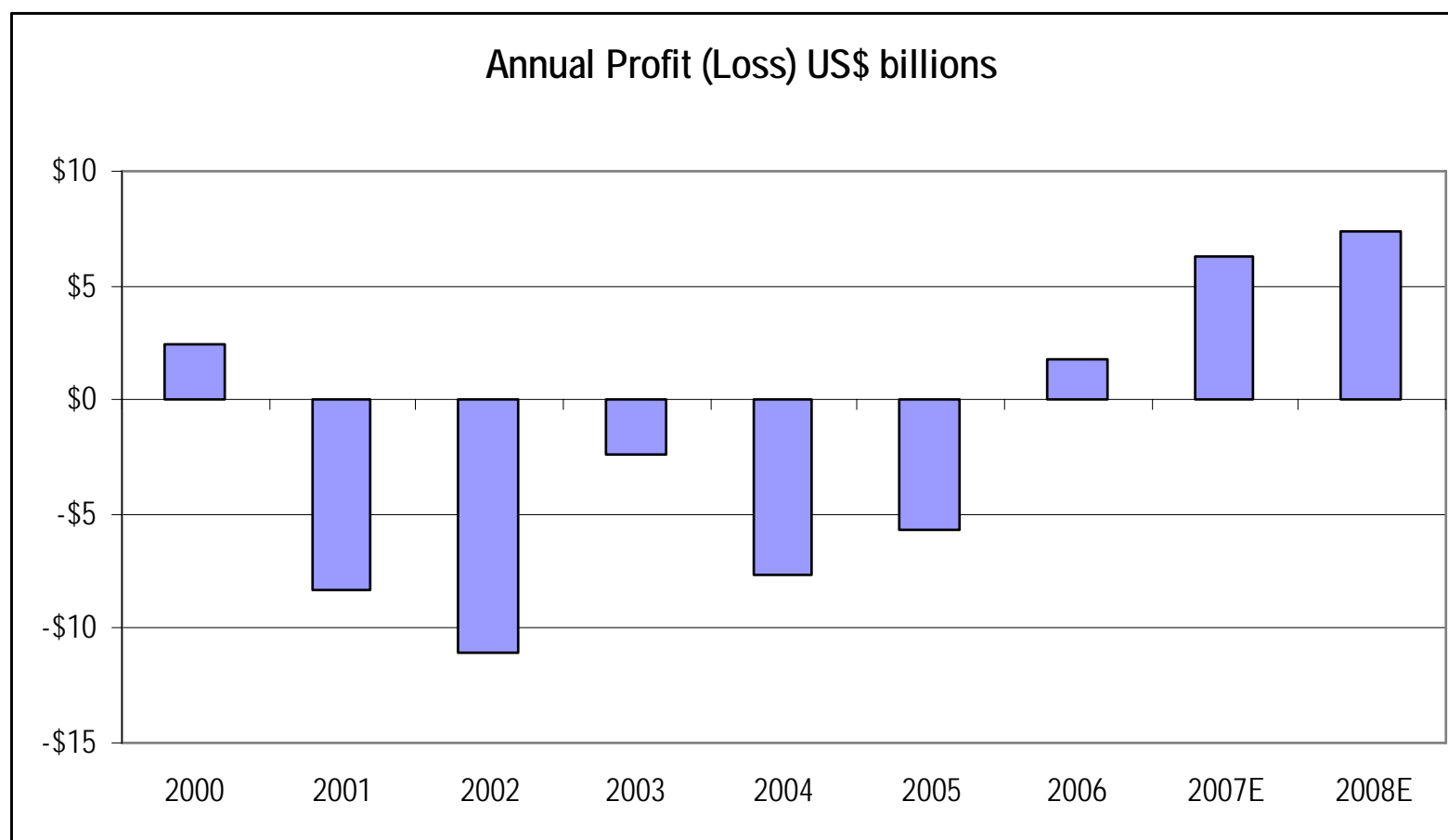
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US Airline Industry Profits: 2000-2008E

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- After \$33 billion in accumulated losses from 2001-2006
- 2007-2008E could yield \$13 billion in estimated profits
- Avg net debt to capital of 67% in 2000, worst was 168% in 2005, vs. 115% in 2006

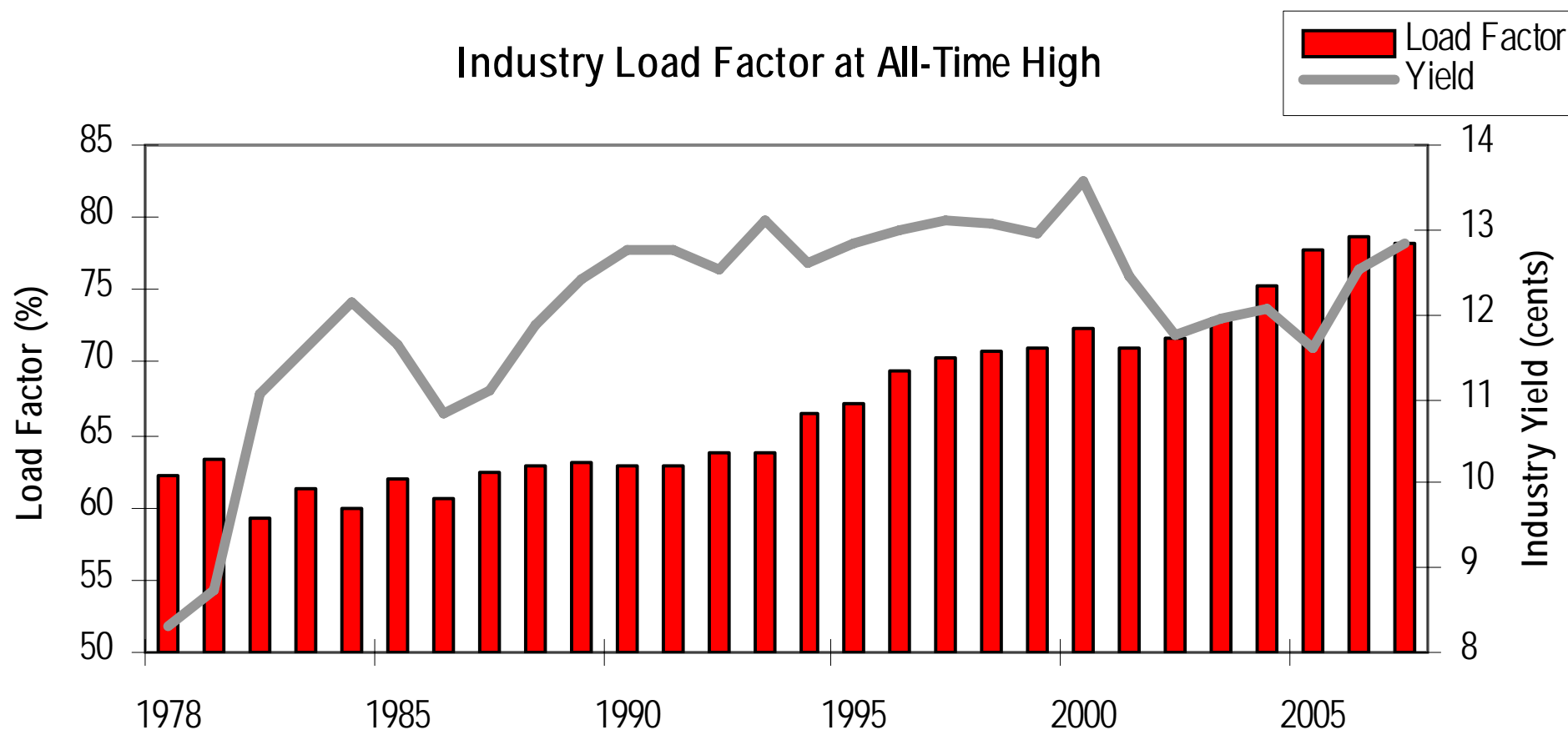


Source: ATA, DOT Form 41 data; Bloomberg; Bear Stearns estimates using 10 largest US airlines

Load Factors and Yields: Planes Fuller Than Ever and Yields Still Below 2000 Peak

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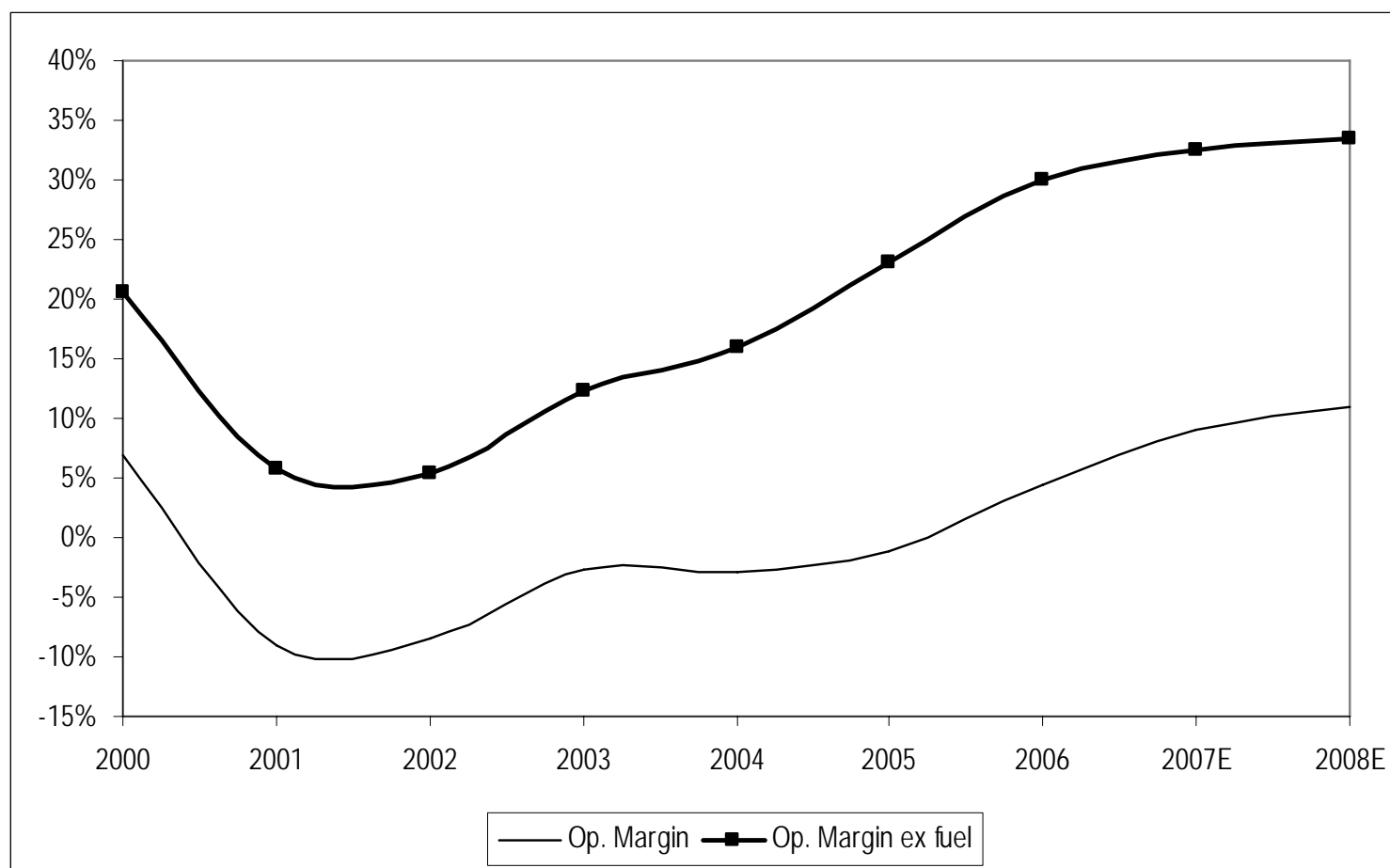
Source: DOT Form 41 data; Company reports; Bear Stearns estimates

US Airline Industry Profit Margins: 2000-2008E

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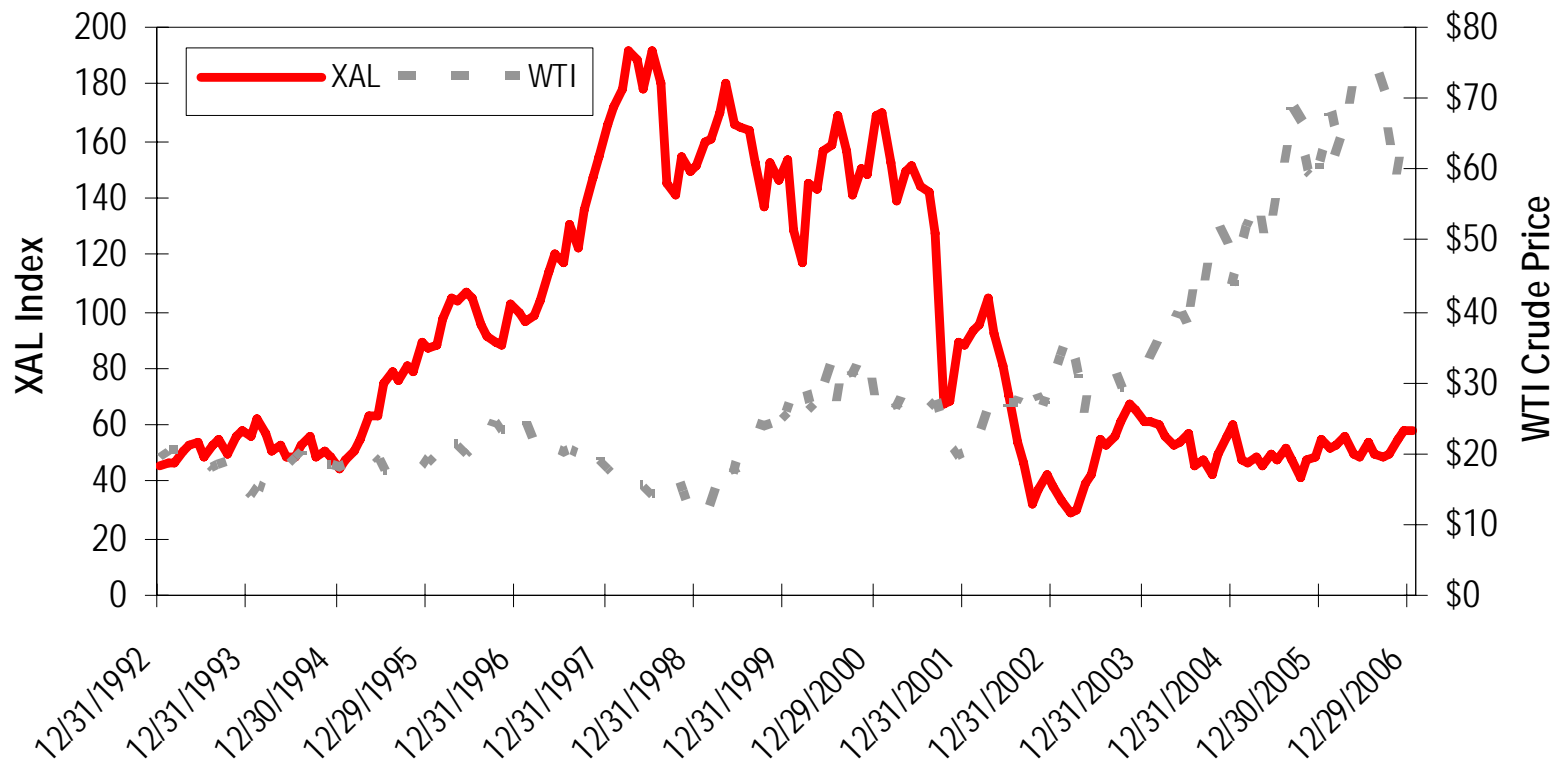
- Operating margins 4.5% in 2006 vs. 7% in 2000
- However, operating margins ex fuel now surpassing level in 2000: 30% in 2006 vs. 21% in 2000
- Labor costs amounted to 24% of revenue in 2006 vs. 33% in 2000



Source: Company reports, Bear Stearns estimates using 10 largest US airlines

- Fuel was 12% of revenues in 2000 vs. 26% of revenues in 2006
- Oil prices and airline financial performance inversely correlated in recent years

XAL Performance vs. WTI Crude Price



Source: Bloomberg; Bear Stearns estimates.

Capacity to GDP Favorable

- Since deregulation, when the GDP-Capacity Spread has been > than -0.5% pts, RASM has risen over 3% y/y
- 2006 saw a GDP-Capacity Spread of 2.3% pts and RASM growth of 9.6% y/y
- Moderate capacity growth in 2007 of 3.3% and healthy economic growth forecasts suggest 3%+ y/y unit revenue growth this year

	RASM % YoY	Yield % YoY	Load Pt Chg
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Average Growth when GDP-Capacity > Historical	>-0.5%	>-0.5%	>-0.5%
Average (ex 01, 81, 80)	3.1%	1.2%	1.2

Average Growth when GDP-Capacity < Historical	<-0.5%	<-0.5%	<-0.5%
Average (ex 01, 81, 80)	1.4%	-0.5%	1.1

BSC Aggregate	Real GDP % YoY	ASMs % YoY	GDP- Capacity Spread	RASM % YoY	Yield % YoY	Load Pt Chg
2006A	3.4%	1.10%	2.3%	9.6%	7.9%	1.2%
2007E	3.0%	3.30%	-0.3%	3.9%	3.5%	0.4%

Source: Company data, BEA, ATA, Bear Stearns estimates

Consolidation?

- Sturdy Cycle: tight supply of seats, moderate economic growth, and low cost carrier fuel hedge declines
or
- Super Cycle: consolidation among major carriers could reduce seats and drive higher unit revenue growth

ADDENDUM IMPORTANT DISCLOSURES

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